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Some Credit Card Issuers Keep Important Data Secret

By Kenneth R. Harney

Saturday, October 23, 2004; Page F01

New research by the Federal Reserve Board should set off alarm bells for anyone considering applying for a home mortgage: Behind your back, your credit card company could be hurting your credit standing by withholding key information from the national credit bureaus.

That could depress your credit scores and raise the interest rate on your home loan.

Three Federal Reserve staff economists studied a nationally representative, random sample of 301,000 credit files, and found that nearly half -- 46 percent -- of the consumers had files in which at least one credit limit had been withheld by a creditor.

Why is that significant? Say you finished school a couple of years ago, you have a good job and you're beginning to establish a solid credit history. You have one credit card with a $2,500 limit on it. You run a modest monthly balance averaging $250. You have never been late, never missed a payment. You're an excellent customer.

But unknown to you, your card issuer has a policy of not reporting fully the details about its customers' accounts. In your online national credit file, your monthly balances and payments are reported accurately. But your credit limit is left blank.

Why would your card issuer do that? To stymie competitors who routinely troll through the databases of the credit bureaus for possible customers by ordering lists of consumers with specific characteristics.

For example, a competing card issuer might look for people who live is a particular Zip code who have credit scores above a given threshold. The company might also seek consumers with young-looking "thin files," with just a few existing credit lines.

Here's the problem: One of the heavily weighted factors in most credit scores, whether the Fair Isaac Corp. (FICO) score or the credit bureaus' proprietary scores, is "utilization" of existing credit. If you are making heavy use of the credit accounts you already have, you are considered a greater risk of future default. Your scores go down.

To measure utilization, scoring systems look at the ratio of your highest balance to your credit limit. If you had a $2,400 high balance against your $2,500 limit, you would have a very high (96 percent) utilization ratio. The scoring program would penalize you for being nearly maxed out.

On the other hand, your $250 balance against your $2,500 limit produces a low 10 percent ratio -- and the scoring system should reward you for your prudent use of credit.

Now for the score killer: When a creditor reports no credit limit on an account, calculation of a utilization ratio is impossible. According to Federal Reserve researchers, when confronted with missing credit limits, most credit scoring systems "substitute the highest balance for the missing credit limit."

"The typical result," said the Fed, is higher credit utilization ratios "than if the credit limits had been reported." Artificially inflated ratios, in turn, typically depress credit scores, sometimes by 50 points or more, according to credit industry experts. The effect can be even more pronounced when the loan applicant is young or relatively new to credit.

The Fed researchers did not identify the credit card issuers who intentionally withhold customers' limits. But for 46 percent of the consumers in a random sample of 301,000 credit files to be affected by this score-depressing policy, the creditors involved must be numerous, big, or both.

Consumer advocates are outraged at the practice. "I think they are basically intentionally harming their own customers," said Evan Hendricks, author of "Credit Scores & Credit Reports," and editor of the newsletter Privacy Times.

Edmund Mierzwinski, consumer program director of the U.S. Public Interest Research Group, said "credit card companies wouldn't be incompletely reporting [credit limits] if they didn't think it deflated their customers' scores" -- and rendered cardholders less attractive to competitors.

How much can non-reporting of limits cost you on a mortgage? Potentially, hundreds of dollars a month and thousands of dollars a year. According to Fair Isaac, a 677 FICO score in today's market would qualify a borrower for a 6.23 percent 30-year fixed rate on a $150,000 home loan. A 30-point drop in that score because of non-reporting of credit limits would push the best rate available to 7.38 percent. Monthly principal and interest to the applicant with the artificially depressed score would be $115 a month higher than it should be.

How to battle non-reporting in a voluntary credit system? Easy. Ask your credit card issuers whether they report credit limits. Or get a copy of your credit file online (typical cost is about $9.95), and check whether your limits are all there.

Then cancel all the cards that intentionally depress your credit scores.

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2 Missing Numbers Can Doom a Loan

By Kenneth R. Harney

Saturday, January 1, 2005; Page F01

How far can your credit score plummet when your credit card issuer withholds your credit limit in its reports to the three national bureaus? And how costly could that be when you apply for a home mortgage?

The answer to both questions: A lot more than you might suspect. Consider this recent case documented by the software and technology firm CreditXpert Inc. of Towson. A loan applicant, a woman who lives in a suburb of Baltimore, had what is known in the mortgage industry as a "thin file" -- a relatively small number of banking accounts on file, including only one credit card.

Her card history extended back 13 years with no late payments. Her account carried a generous $4,050 limit, according to CreditXpert researchers, but her card company had never reported either that important piece of information or her highest balance. At the time her bureau files were examined, she had a zero balance on the card. That, combined with her history of on-time payments, should have boosted her credit scores significantly.

But the card company's failure to report the credit limit or highest balance -- both crucial factors in computing the FICO scores that most mortgage lenders use to evaluate applicants and set interest rates -- knocked a shocking 66 points off the woman's score.

A 66-point loss is huge when it comes to obtaining a home mortgage. In her case, had she been applying for a fixed-rate, 30-year home loan of $225,000 in late December from lenders active in her market, it would have cost her nearly $9,000 in additional monthly payments during the first five years of her mortgage alone, according to Fair Isaac Corp.'s MyFico.com online rate calculator.

That extra expense would not have been caused by anything she did wrong, but rather by what the card company did without her knowledge: keep her good credit behavior a secret from potential competitors by withholding her credit limit and highest balance, thereby decreasing her credit score. Credit card companies sometimes try to hide their best customers' identities from other lenders trolling the credit bureaus' vast databases to prescreen targets for card offers. Typically the trollers ask the bureaus for lists of cardholders with higher scores, and avoid those with marginal or lower scores.

Home buyers with thin credit files -- typically younger households or minority group members who have not made extensive use of the credit system -- are the most vulnerable to this abuse, according to CreditXpert Vice President David D. Chung. But they are hardly the only victims.

Researchers at Chung's firm recently examined the credit files of a 40-year resident of Columbus, Ohio. He had extensive records at the national credit bureaus, with five revolving charge cards and six installment loans. However, because of missing credit limits on reports by two of his card companies, according to CreditXpert's analysis, the man lost 43 points from his credit scores -- again with painfully costly effects as a home buyer.

Several of the biggest card issuers told me, in interviews or e-mailed statements for this column, that their corporate policy is to report all customers' account limits and highest balances to the three national bureaus -- Equifax, Experian and TransUnion. Only Capital One Financial said it withholds limits as a matter of policy. However, credit industry researchers, including CreditXpert, say they routinely see consumer files with account limits missing or withheld, including from card issuers whose publicly stated policies are to the contrary.

One of the highest-volume card issuers, American Express, reports limits on some of its cards -- those with revolving monthly balances such as the Optima and Blue cards -- but does not report limits on its familiar Green, Gold and Platinum cards, which generally require payment of the full balance each month. According to Susan Korchak, American Express vice president for corporate affairs, "there is no preset limit" on these cards. So there is no credit maximum, at least as that concept is used by other card issuers and FICO scoring, to report to the national bureaus.

What can individual consumers do about flagrant nonreporting of limits by card companies that depress their scores and raise interest charges on home mortgages? Tops on the list: Get copies of your three bureau reports and check whether your card issuers are reporting fully. If you find they are not, complain bitterly, especially if you stake a lot of your personal credit history on your good behavior with their cards.

Then, if a card company refuses to report your credit limit, end the relationship. Transfer your balances to a company that will treat you as you deserve.

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Credit Card Limits Often Unreported

By Kenneth R. Harney

Saturday, December 25, 2004; Page F01

It is a well-kept little secret of the credit card industry -- and it can be exceptionally costly to home buyers and mortgage applicants.

The secret is this: Your credit card company may be depressing your credit scores by not reporting your credit limit to the three national credit bureaus. Lower credit scores, in turn, push you into higher interest rates when you apply for a mortgage, and can add thousands of dollars of needless extra costs for you as a homeowner.

If you carry a Capital One credit card, you can be 100 percent certain that your credit limit is never reported because Capital One confirmed to me that its corporate policy is to withhold limits, whether it depresses some customers' scores or not.

If you have other cards in your wallet, you will need to check your credit files to determine whether your limits are reported. Though most major bank card issuers say their policy is to report customers' credit limits monthly, researchers say that limits frequently are missing in the bureaus' files. A recent Federal Reserve Board study that analyzed 301,000 consumer credit files found that 46 percent of all consumers in the sample were missing at least one credit limit on their national reports.

The problem of nonreported credit limits is most severe, according to credit industry experts, for younger home buyers, newcomers to the banking and credit arenas, and others with relatively thin credit histories.

"There is no doubt that [nonreporting of limits] has a major negative impact on consumers with thin files," said Terry W. Clemans, executive director of the National Credit Reporting Association.

The reason, Clemans said, is that the most widely used scoring system in the mortgage field -- the FICO score developed by Fair Isaac Corp. -- assigns 30 percent of a person's score to what is known as "utilization" of available credit. Utilization boils down to this: If you have a card with a $1,000 limit and you are carrying a $950 balance, you have a 95 percent utilization rate. FICO's scoring system subtracts points for such high ratios.

On the other hand, if you are revolving a $250 balance on the same card, you are rewarded with points because of your seeming moderate, responsible use of your available credit.

What happens if your credit card company withholds or fails to report your credit limit? The scoring system typically substitutes your highest reported balance on the card for your missing limit. That, in turn, will often depress your score by raising your utilization rate.

For example: Your card has a $5,000 limit but the highest balance you have ever racked up was $1,000. That should add points to your score, as befits a modest 20 percent utilization ratio. But if your card company hasn't reported your limit, the scoring system will treat your high balance of $1,000 as a proxy for your actual limit.

But what if you regularly carry an $800 or $900 balance on that card? Suddenly your utilization looks scarily high, and your score plunges -- especially if that card is one of the few big credit accounts in your national bureau files. Depending upon your overall credit profile, you could lose 20 to 50 points, or even more, because of that missing credit limit.

What does a 20-point to 50-point drop in your FICO score do to you when you apply for a home loan? According to Fair Isaac's Web site, www.MyFico.com, in mid-December an applicant for a $150,000 30-year fixed-rate mortgage with a 700 FICO score would be quoted a 5.79 percent interest rate, costing $880 a month in principal and interest. An applicant with a FICO score of 660, just 40 points lower, would be quoted a 7.48 percent rate, with monthly principal and interest payments of $1,047. That $167 extra a month would raise loan costs $2,004 a year, and would be a needless, unfair expense to the home buyer if it were caused by a card company's failure to report a customer's credit limit.

Why would a card issuer do such a thing? McLean-based Capital One Financial Corp., one of the largest issuers in the country, heavily markets its cards to young consumers and individuals with imperfect or thin credit histories. It says it does not report any customers' limits because "we consider [limits] proprietary" information, and "because we do not think it would be appropriate to impact the individual's Fair Isaac score -- positively or negatively -- by reporting them."

Fair Isaac itself, by contrast, supports full reporting of account information. Cheri St. John, Fair Isaac's vice president of scoring and consumer solutions, says "the more data, the better" -- positive or negative -- when it comes to fairness in credit scoring.

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